# ECON861
# Advanced Macroeconomics

## Semester 2, 2009

## Unit Outline

## Department of Economics

## 1.    UNIT DESCRIPTION

This unit presents the modern view of macroeconomics. This view is based firmly on microeconomic foundations. We will develop macroeconomic models which are based on the optimizing behavior of private agents and of the government in an open economy framework. There are two important advantages of this approach. First, macroeconomic issues can be discussed in a way that is fully consistent with microeconomic behavior. Second, because this approach is based on solid microeconomic theory, it can be used to evaluate the welfare consequences of government policy. The empirical regularities that have been found in macroeconomic data will also be discussed and used to evaluate the theory we develop.

### Unit Goals

After completing the unit students should:
- have a firm understanding of modern macroeconomic theory, that is macroeconomic theory which is firmly based on microeconomic foundations.
- be familiar with the empirical regularities that have been found in macroeconomic data.
- be able to use the models discussed to evaluate normative questions in macroeconomics. Normative questions are concerned with welfare; how should government policy be designed to improve the economic well-being of people?

### Generic skills

The unit will aim to develop generic skills including:
- analytical reasoning
- effective presentation of knowledge and thought (through written assessment tasks)
- critical evaluation of policy positions with reference to an analytical framework

These skills will be enhanced by the lectures and tutorial.

## 2.    LECTURERS

### For Weeks 1 to 7

Professor Lance Fisher
Room 435, Building E4A
Phone No: 9850-8480
Email: lfisher@efs.mq.edu.au

**For Weeks 8 to 13**

Dr Natalia Ponomareva
Room 428, Building E4A
Phone No: 9850-6194
Email: nponomar@efs.mq.edu.au

## 3. LECTURE

Thursday      2pm – 5pm            W6B 338

## 4. ASSESSMENT

The components of assessment in this course are as follows:

Final Examination (2 hours)         60%

Two written assessment tasks       40%

In order to pass this unit you must:
- achieve an overall mark of 50%
- make a satisfactory attempt at all assessment tasks

There will be one written assessment task (worth 10 marks) covering the first part of the unit (Professor Lance Fisher's part). There will also be one written assessment task (worth 10 marks) covering the second part of the unit (Dr Natalia Ponomareva's part).

## 7. ECON861 FINAL EXAMINATION

This will be held in the University examination period (November 18 to December 4 inclusive) and will be two hours long. Further information on the content of the Final Exam will be provided towards the end of the session.

## 8. ECON861 WEBSITE

The website for this course can be accessed via Blackboard. Announcements and other material will be posted on the website.

## 9. REFERENCES

The textbook for the first part of the unit is:

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), MPRA Paper No. 6403.

It is the Munich Personal RePEC Archive Paper No. 6403. This textbook can be downloaded free of charge at:

http://mpra.ub.uni-muenchen.de/6403/

We will cover most of the chapters in this textbook.

A good and useful undergraduate textbook which follows a similar approach is:

Barro, Robert, *Macroeconomics: A Modern Approach* Thomson, 2008.

References for the second part of the unit will be announced in due course.

## 10.     LECTURE TOPICS

### FIRST PART: Weeks 1 to 7: Lance Fisher

### Week 1 (August 4): Output and Employment

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapters 1 and 2.

Crosby, Mark and Glenn Otto (1995) "Real Business Cycle Models: An Introduction" *Australian Economic Review*, Third Quarter, 55-70.

Fisher, Lance, Glenn Otto and Graham Voss (1996) "Australian Business Cycle Facts" *Australian Economic Papers* Vol. 35, No. 67, December, 300-320.

Kydland, Finn E. and Edward C. Prescott (1986) "Business Cycles: Real Facts and a Monetary Myth" *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 14, Spring, 3-18.

Prescott, Edward.C. (1986) "Theory Ahead of Business Cycle Measurement" *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 10, Fall, 9-22.

### Week 2 (August 11): Models of Unemployment

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 4.

Lucas, Robert E, (1978) "Unemployment Policy" *American Economic Review* Vol. 68, No. 2, May, Papers and Proceedings, 353-357.

### Week 3 (August 18): Consumption and Saving

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 5.

Campbell, John. (1987) "Does Savings Anticipate Declining Labor Income? An Alternative Test of the Permanent Income Hypothesis", *Econometrica* Vol. 55, 1249-1273.

Fisher, Lance and Graham Voss (2004) "Consumption, Wealth and Expected Stock Returns in Australia", *Economic Record* Vol. 80, No. 251, December, 359-372.

Fisher, Lance, Glenn Otto and Graham Voss (2009) "The Response of Australian Consumption to Housing Wealth" *Journal of Macroeconomics* in press.

Hall, Robert (1978) "Stochastic Implications of the Life-Cycle Permanent Income Hypothesis: Theory and Evidence", *Journal of Political Economy* Vol. 96, 339-357.

**Week 4 (August 25): Fiscal Policy**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 6.

Fisher, Lance and Geoffrey Kingston (2003) "Joint Implications of Consumption and Tax Smoothing" *Journal of Money, Credit and Banking* Vol. 37, No. 6, 1101-1119.

**Week 5 (September 1): Capital and Investment**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 7.

Otto, Glenn (2003) "Can an Intertemporal Model Explain Australia's Current Account Deficit" *Australian Economic Review* Vol. 36, September, 350-359.

**Week 6 (September 8): A Simple Model of Money and Inflation**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 8, 172-185.

McCandless Jr., George and Warren Weber, "Some Monetary Facts" (2001) *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 25, No.4, pp.14-24.

**Week 7 (September 15): Money, Capital and Banking**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 8, pages 185-194.

**Midsession Break (September 21 – October 2)**

**SECOND PART: Weeks 8-13: Natalia Ponomareva**

**Week 8 (October 6): TBA**

**Week 9 (October 13): TBA**

**Week 10 (October 20): TBA**

**Week 11 (October 27): TBA**

**Week 12 (November 3): TBA**

**Week 13 (November 10): TBA**

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**END OF LECTURES**

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## 11. EXAMINATIONS

The University Examination period in Second Half Year 2009 is from November 18 to December 4 inclusive.

You are expected to attend the final examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.
http://www.timetables.mq.edu.au/exam

The only exception to not sitting the final examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at
http://www.reg.mq.edu.au/Forms/APSCon.pdf

All claims have to be substantiated by a signed *Professional Authority Form*, and if they are based on non-medical grounds, supporting documentation (such as statutory declarations by independent witnesses, police reports, or statements from sufficiently senior officials in the place of employment) must also be provided.

If accepted, in most cases, the students will be required to sit a supplementary examination on a date set by the Faculty. So, students who intend to be away must take account of this rule in scheduling any travel after lodging the request.

The format of the supplementary examination may be different from the usual examination. To prevent students from abusing this facility and to protect only the students with genuine reasons, **the result of supplementary examination will replace the result of the usual examination if a student sits a supplementary examination as well as the usual examination**. This implies that a student will fail the unit if he/she fails the supplementary examination regardless of his/her performance in the usual examination. If you believe this rule unfairly disadvantages you, contact the lecturer in charge before lodging the request form.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, i.e. the final day of the official examination period.

## 12.     PLAGIARISM

The University defines plagiarism in its rules:  "Plagiarism involves using the work of another person and presenting it as one's own". Plagiarism is a serious breach of the University's rules and carries significant penalties.  You must read the University's practices and procedures on plagiarism.  These can be found in the *Handbook of Undergraduate Studies* or on the web at:
http://www.student.mq.edu.au/plagiarism/ .

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty.  Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

## 13.     UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction.  Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit.  In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see:
http://www.mq.edu.au/senate/MQUonly/Issues /Guidelines2003.doc  or
http://www.mq.edu.au/senate/MQUonly/Issues /detailedguidelines.doc

**14.      STUDENT SUPPORT SERVICES**

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at http://www.student.mq.edu.au.

The Faculty of Economics and Business offers additional support for its students such as EFS Resource and Information Centre commonly known as ERIC, Peer Assisted Learning (PAL), etc. Details of these services can be accessed at:
http://www.efs.mq.edu.au/ss